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General Business Conditions

THE industries have operated during September at the best rate since last winter. The difficulties caused by steel shortages have gradually been fading, and the task of "catching up" keeps the metal working plants busy. In consumers' goods the improved sales of the past few months are now reflected in expanded operations. The slump in consumers' goods business that began in the spring of 1951 was prolonged, but the normal corrective forces, including absorption of inventories, lower prices, and introduction of new products, finally turned the tide, and in many of these industries manufacturers once more are working against a backlog of unfilled orders instead of trying to liquidate stocks. This is true not only of soft goods but of many items of household equipment. The heavy industries, which together with defense expenditures supported the situation during the consumers' goods slump, have on hand or in sight enough orders to keep them at peak operations for a good many months, and construction work is almost equally well maintained.

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For purely seasonal reasons this is one of the busiest times of the year, with the crops being distributed and the fall rise in freight movements and retail trade under way. The rise in industrial activity, however, has been more than seasonal, and not wholly because of the rebound from the steel strike. The significant fact is that the activity is better balanced and diffused. Some of the former soft spots have become supports instead of drags. In last analysis, each form of enterprise finds its market in the employment and purchasing power created by the others. If up-to-date figures were available they would probably show that unemployment is now the lowest since the war.

Defense expenditures have reached a new high during September. Mr. Robert C. Turner, the new member of the President's Council of Economic Advisers, startled the country early in the month with the statement that defense spending had about reached its peak. He later recanted, agreeing with nearly everyone else that the rise will continue in the first half of 1953. There is an element of truth in Mr. Turner's original statement that the impact of the defense program already may be quite fully felt in the economy, for the stimulating effect of the expenditures runs well ahead of the disbursements themselves through the placement of contracts, construction, and inventory accumulation. Even so, no letdown is expected within the period cited, unless unforeseen international developments should intervene.

Present Sentiment Optimistic

This is the time of year when people begin to line up their opinions concerning the prospect for the next year to come. With respect to the early months of 1953 there is now a remarkable unanimity of prophecy. To sustain activity, business observers count first on government spending and on the construction and industrial plant and equipment programs which, in considerable part, are influenced by government spending.

They are equally confident that the consumer goods cycle has turned upward, and that after some fifteen months of decline the rising phase of the cycle will run through the holiday trade and into next spring at least. By a simple process of adding together government purchases of goods and services, private capital expenditures, and presumptive consumer demands, they reach the conclusion that business will carry well into 1953 at a good and possibly rising pace.

As forecasts are pushed further along, however, the optimists seem to drop out by progressive stages: some at the end of the first quarter, some at the half-year, and the great majority by the year-end if not earlier. Looking ahead, people see defense expenditures finally leveling off. They expect plant and equipment expenditures to decline, and cannot see clearly what will come forward to fill the gap in demand.

Buying Conservative

In this longer-run caution is to be found one explanation of the fact that while the country is experiencing a boom, people for the most part are not acting as they have so often done in booms of the past. Conservatism in buying is a pronounced feature of the news. The National Association of Purchasing Agents says that among its members the tendency is to shorten commitments; it finds that most buyers stay within 90 days and more are coming down to a 30 to 60 day basis. Department store sales are not particularly buoyant, running in the aggregate little if any better than a year ago. Other types of retail trade have been relatively better and merchants, with inventories down, have larger outstanding commitments than at this time last year. But nowhere is there a reckless scramble either for merchandise or industrial materials.

Another explanation of conservatism is the belief that the country has demonstrated its ability to fill defense requirements and carry out record-breaking expenditures on plant and equipment, and at the same time to supply about everything that people and business want. Buyers are not alarmed about shortages and not expecting much higher prices, even of manufactured goods which have to carry the burden of increased wages and other costs.

Moderate opinions as to the price outlook are now expressed even by government officials who only a short time ago were vigorously setting forth their fears that the alleged loopholes left in the Defense Production Act, when Congress extended it after June 30, would open the way to skyrocketing prices. Mr. Putnam, the Economic Stabilization Administrator, now says that victory against inflation is not too far away, and Mr. Turner, who has already been quoted, expresses the opinion that while there may be some moderate price increases as a result of higher costs, altogether they "should not add up to much". The chief reason for his feeling is that the expansion of industrial capacity "is beginning to pay off". The sobering effects of enlarged supplies are now to be seen in many markets, for example, lead and zinc.

In farm products and foods the recent price trend has been downward. The latest consumers' price index (cost of living) of the Bureau of Labor Statistics, as of August 15, was at a new high, although only 1 per cent above last January's level. There now seems reason to hope that, with wholesale food prices reacting somewhat, the rise in the cost of living will be checked.

These considerations hold out the promise that business may show a gratifying degree of both activity and stability during the next few months. It may be added that conservative buying policies should prolong the period of activity. A policy of restraining inventory accumulation rather than adding to it may save trouble later. One of the reasons for the long continuance of high overall business activity since the war is that — with the conspicuous exception of the two post-Korean buying waves — so many people have feared that depression was around the corner and have conducted themselves accordingly. It would be too optimistic to expect that the caution of individuals in a time like this, when armament production and deficit financing are such strong influences, can wholly overcome the basic economic forces which cause business to swell and recede. But it is indisputable that "dampening the boom" acts to defer and moderate the reaction.

Crop Prospects Near Record

The harvest is bountiful again this year. As presently estimated, the crops will nearly equal the 1949 total, which was the second highest on record. Production is well balanced, since only two crops, winter wheat and rice, are expected to be of record proportions. With marketings of livestock and livestock products expected to be the highest ever, total 1952 farm output promises to be the largest ever realized.

The acreage planted this year, particularly of feed crops, was somewhat below the Government goals, reflecting the tight farm labor supply, lower prices for farm products, and increased costs of production. But the weather, except for severe drouth in several southern

areas, has been good, especially as compared with last year. Higher yields thus are compensating in part for the non-fulfillment of acreage goals. This is particularly true for corn. Although farmers planted about 7 million acres less than the Government wanted, the crop is estimated as of September 1 at 3,185 million bushels, compared with 2,941 million last year. The anticipated yield per acre is about 7 per cent higher. More important, this year's corn is reported to be of good quality in contrast to last year, when much of the crop failed to mature properly.

The larger corn crop offsets moderate declines in other feed grains, and the total feed grain yield is estimated at 117 million tons, 3 million above 1951. However, this is much less than in the three years preceding 1951 and the number of livestock to be fed grain is greater than in any year except 1942 and 1943. With present carryovers of feed grains down one-third from a year ago and no marked change in quantities of by-product feeds, overall supplies of feed concentrates per animal unit are slightly below last year.

As for bread grains, the combined winter and spring wheat crops are expected, despite poor spring wheat conditions, to total 1,298 million bushels. Together with the old crop carryover of 254 million, this gives the nation a near record supply of wheat. As previously indicated, a record rice crop is reported. The potato crop is only slightly above last year's inadequate production, and shortages may occur before the early 1953 crop is available.

Among the non-food crops, the Government estimates the cotton crop at 13,889,000 bales against 15,144,000 in 1951. Although the yield is much below the government goal of 16 million bales, it appears to be large enough to meet domestic and foreign requirements without much, if any, reduction in carryover. Other cash crops, tobacco and flaxseed, are somewhat below last year. While the indicated soybean crop of nearly 276 million bushels is slightly less than last year, it will be one of the largest on record.

Trend of Farm and Food Prices

With crops of this size the country has ample supplies of farm commodities and foods, and there is little reason to expect food costs to advance much; the recent trend has been downward. It is unlikely that foreign demand for U.S. farm products will be as good in the 1952-53 season as in the past, not only because of the tightening of dollar exchange, but also because of better crop prospects in Europe and in the Southern Hemisphere, where food crops were poor during the past season. Canada has a record wheat crop, also seeking outlets in the world market. Our wheat exports this year are expected to be 150 to 175 million bushels below 1951-52. Military food requirements, which in 1951 absorbed about 5 per cent of the total food supply, are expected to show no significant change.

Offsetting the depressing factors, employment and personal incomes are at record or near-record levels, and expenditures for food should be maintained. In fact, cash income from marketings is expected by the Department of Agriculture to be slightly larger than the 1951 figure of $33 billion, although because of increased production costs, net income to farmers is not expected to increase. After allowing for the rise in population, still progressing rapidly, the per capita food supply may not be much different from last season. In the months ahead there is likely to be more poultry but less pork. More beef is expected, but the increase may not fully offset the decline in pork supplies. There is still a tendency to build up cattle numbers, but the rate of increase has slowed, indicating larger marketings in the next year.

Farm prices of poultry, dairy products, and meat animals — the high grade protein foods for which demand has been expanding with the rising standard of living and growth in population — have declined less than most other farm products and should continue to hold their own.

Where pressure on prices develops, it will be countered by the government price support programs. Price support levels for the current year are above those of last year. During the peak of the harvest, the market price for wheat was 25 to 30 cents below the equivalent support price at leading markets. But despite the large crop, the current price is about equal to the effective loan rate (gross support minus carrying charges). Through August 15 producers had placed 169 million bushels under price support compared with only 68 million on August 31, 1951. The general belief is that the amount of wheat entering the loan this year will exceed the record 408 million bushels for 1942.

Consequences of High Supports

In this Letter last month the long-run consequences of high and fixed government price supports, and the problems raised, were discussed in general terms. The grain markets now clearly illustrate the points made. One consequence of the price support is to enlarge the surplus,

whereas lower prices would enlarge consumption.

Considering the international situation, no great harm would be done by increasing somewhat our reserves of bread and feed grains. But with grain price supports at present levels it is entirely possible that needed production of meat, milk, and eggs will not be forthcoming. Instead, there is a good chance that government bins will again be filled with large stocks of grain. For example, with a good quality crop that can be stored, some farmers, after unprofitable beef-feeding operations this past year, may be content to place their corn under support in preference to feeding it to beef cattle. Not only is this uneconomic and undesirable from the viewpoint of the consumer, who has been paying high prices for protein foods, but it interferes with adjustments needed in agriculture to fit food production to changing consumption habits.

The long-run effect of the price supports on the position of the grain growers themselves is worth equal attention. With the wheat surplus now in prospect, a cut in the wheat acreage for 1953 is in order. The Secretary of Agriculture has appealed to farmers to reduce their plantings voluntarily 8 per cent below those for this year's crop. But at the same time the Government offers price support at 90 per cent of parity not only next year but through the 1954-55 crop season, and the Secretary advocates "full parity". Production is encouraged even while farmers are asked to reduce it.

Where this leads is plain. If and when the surplus mounts to unmanageable proportions, the Secretary will find it necessary to tell farmers how much to grow and how much to market. In fact, under present farm legislation, the Secretary has power to establish acreage allotments and marketing quotas on the 1953 crop. He has elected to rely on voluntary cooperation, but the question is how long that will suffice.

Leaders of the American Farm Bureau Federation and the National Grange many times during the past year have warned about such possible regimentation of farmers. With a flexible system of price supports, free to move with changes in supply and demand, lowering of the support price would tend to discourage production and keep the supply of wheat at a desirable level. The producer would be free to make his own decisions as to how much to grow and how much to sell. In the long run the effect of the present policy of high and fixed price supports must be to take away that freedom. Ultimately an adjustment of wheat acreage to market conditions cannot be avoided. The question is how and when it will come about.

The International Monetary Fund

The joint annual meetings of the International Bank for Reconstruction and Development and International Monetary Fund were held early last month, in Mexico City, bringing together again finance ministers and central bankers from all over the world to discuss problems of mutual interest. Since the last annual meetings, held a year ago at Washington, Germany, Japan, Burma and Jordan have affiliated with the Bretton Woods institutions and the membership now totals 54 countries. The directorships of the two institutions are being enlarged from 14 to 16 to give representation to Germany and Japan.

These annual meetings have the character of shareholders' meetings. The "governors" from the member nations hold the voting rights for the selection of the directors who, with the permanent staffs, have the responsibility of running the organizations. The meetings are very large and are designed not so much for decision-making as for exchanges of views and consultations on problems. The most general theme at Mexico City was shortage of currency reserves — gold and dollars — and the consequent needs to restrict imports, delay unqualified currency convertibility, and restrain the pace of armament and developmental programs.

For the most part, satisfaction was expressed at the progress made by the World Bank and it was the Fund that encountered the major pressure for a relaxed lending policy. The Fund's charter actually contains no reference to loans but speaks euphemistically of currency "purchases". These really represent the extension of unsecured credits. A member in good standing was supposed to be entitled to these credits, up to certain "quota" limits, as a matter of right. The Fund got its fingers burned early in its career, "purchasing" soft currencies with dollars, and the loan or "purchase" operations were practically shut down in 1949 to avoid dissipation of the $3.4 billion gold and dollar resources placed in its custody.

The Fund's charter, which sets up a ponderous accounting machinery for automatic extensions of credit among nations, has been a source of friction and misunderstanding among members and a handicap to effective operation. The trouble is that nations are not equally creditworthy. The assumption at Bretton Woods that, with the Fund to tide nations over temporary periods of difficulty, all currencies would be freely convertible into one another — and in

that sense equally good — has not been borne out by experience. As practical people recognized at the time, these assumptions were easier to make than to realize.

Inflationary Domestic Policies

The Fund's Annual Report, alluding to the frequent recurrence of payments difficulties and the Fund's failure to realize "unimpeded multilateral trade and the general convertibility of currencies," finds the principal explanation in the attempt of nations to live beyond their means:

> Since the end of World War II the pressure of demand for consumption and investment goods and services has, for a wide variety of reasons, been allowed to pass beyond the limits set by the resources available. The efforts to translate into reality the widespread desire for economic security and betterment, or, in some countries, to check the deterioration of standards realized in the past, have been an important factor in this situation. More recently, rearmament programs have made further demands upon the limited supplies of resources. . . .
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> In their efforts to satisfy the competing claims of divergent social and economic objectives, many countries have adopted economic and monetary policies which have meant that they were attempting to live beyond their means. . . . Measures which it is feared will be unpopular are either not taken at all or taken only after long delay and then not pushed far enough.

In his opening statement at the meetings, Mr. Ivar Rooth, Managing Director of the Fund, addressed a portion of his remarks specifically to the impact of inflation, producing balance of payments deficits, on employment:

> The payments problem has persisted so long, and is so little understood, that there is a danger that the public will lose all interest in its solution. The inflation environment has been so thoroughly confused with the objectives of full employment that there is a danger that the public will come to accept inflation. The fact is that there is no greater threat to employment and living standards than inflationary policies which lead to payments difficulties. Continuous inflationary pressures and balance of payments deficits are bound to make it increasingly difficult to ensure the maintenance of imported supplies of raw materials and foodstuffs, and therefore of full employment and high standards of living.

In the Annual Report a number of other factors aggravating balance of payments difficulties are mentioned: protectionist policies in the United States with particular reference to agriculture; industrialization of raw material producing countries; inadequacy of gold and dollar reserves in the hands of governments and central banks abroad; the virtual absence of private capital movements to share the burden of adjustment to balance of payments fluctuations; the international political tensions that have disrupted East-West trade and necessitated rearmament; and a lack of effective cooperation between various countries, for example, in stockpiling scarce materials. It is noteworthy that, within this list, the "inadequacy" of reserves is intimately related to the inflation point, for pressure on reserves is a natural reaction to inflation. From this standpoint, dollar shortage is a result of the fact that, by and large, inflation has proceeded faster abroad than in the United States.

A Melancholy Fact

"It is a melancholy fact," the Fund's analysis concludes, "that seven years after the end of the war the Fund has to report that international payments are still far from having attained a state of balance and that exchange difficulties and exchange restrictions are again, over large parts of the trading world, the order of the day." Indeed, restrictions on convertibility among currencies, a plague on anyone trying to do a foreign trade business, are more widespread than at any time before World War II.

In a separate report on Exchange Restrictions, the Fund reviews, country by country, the systems of restrictions maintained by member nations on payments and transfers for current international transactions. The Fund's charter provided that such restrictions should be withdrawn when no longer necessary for balance of payments reasons and foresaw a final end to them three to five years after the Fund began operations. The five years expired on March 1, 1952. Among the general obligations of members, the charter reads: "no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions". The only member countries that fulfill the requirement are El Salvador, Guatemala, Honduras, Mexico, Panama, the United States, and Canada, which abolished its exchange control system on December 14, 1951. While some other countries relaxed their restrictions during 1951, as reserves recovered, Canada was the only country to discard them entirely. Moreover, as the Fund report notes, there has been a more recent tendency to intensify exchange and trade restrictions. The United Kingdom, and associated sterling area countries, are the most conspicuous examples.

The Fund has a better record on the number of members adhering to fixed exchange rates, another obligation undertaken by member nations. As of June 30, 1952, all but eight members had established par values for their currencies. The benefits of these fixed rates, however, are often more apparent than real. An exchange rate is genuine in proportion to the volume of transactions it will accommodate. Exchange and import controls restrict trade at the official rate,

and create a practical need for unofficial free markets to avoid undue stifling of trade. The Fund has frowned on fluctuating, free market rates, as a violation of its charter, seeming to prefer the fiction of stability to the reality of convertibility. In line with its policy, increased use of so-called "retention quota" systems was sharply criticized at the Mexico City meetings. These systems allow a merchant to keep a portion of the foreign currency proceeds of exports for use in acquiring imports or for sale in the market and the use of somebody else.

An Overambitious Project

The basic difficulty of the Fund stems from misconceptions at Bretton Woods of what the postwar world would look like. Even apart from the unexpected tensions between East and West, it was an unnecessarily ambitious aim to have all currencies, world-wide, linked together in fixed ratios and freely interconvertible at such rates. As history prior to the rise of Hitler shows, thriving international commerce does not demand universalized fixed rates of exchange; it demands reasonable stability of key currencies, a universal freedom to hold and use these currencies in international trade settlements, restraint in the application of import and export duties, and in general a recognition of the mutual benefits that flow from international trade.

The Fund was rushed through during the war as a once-in-a-lifetime opportunity to shoot for the moon and rid the world of fetters on trade. Many nations undertook the obligations but their fulfillment was never within practical reach. The ink on the Fund's charter was hardly dry before it was recognized that recovering the solvency of the pound sterling, so vital in world trade, was prerequisite to any kind of normal functioning of the world economy. A succession of extraordinary measures have been taken toward this end, beginning with a $3¾ billion loan by the United States Government, and including one major revaluation of the pound, but the objective still eludes solution. Prime ministers from the British Commonwealth, gathering next month in London, may consider a fresh attempt. The Fund presumably will be ready to offer resources to support any solution that offers promise of success. It is becoming increasingly recognized within the Commonwealth that the survival of London as a world financial center depends upon finding a workable solution.

An Accomplishment

One vital purpose which an organization like the International Monetary Fund serves is to provide a meeting ground among responsible financial leaders, to offer facilities for keeping posted on significant developments around the world, and to give counsel in dealing with problems that arise. The annual meetings provide a forum, on a scale never before attempted, for the elucidation of sound financial policies.

In the realm of operation a very real accomplishment has been the preservation intact of the bulk of the "hard money" entrusted to the Fund. This required a good deal of courage, with the chronic gold and dollar shortages of the postwar era of inflation. The Fund has held tight to the $1.5 billion gold contributed by member nations and still has left $1.3 billion of the gross amount of $2.1 billion U.S. dollars contributed. As the following table shows, most of the dollars disbursed went out in the first fourteen months of operation, ended April 30, 1948, when a brief attempt was made to function on the principle that membership gave a nation the automatic right to take out 25 per cent of its "quota" each year. At present the Fund rather freely allows nations to withdraw dollars in amounts equivalent to their gold contributions. With this exception, the policy is to proceed on a case-by-case basis in making its resources available to members, building up out of experience what its Annual Report calls "a body of practical criteria" founded in the main on prospects for repayment.

Monetary Fund Transactions in U.S. Dollars

(In Millions of Dollars)

Year ended April 30:	Dollars taken	Dollars repaid	Dollar holdings	Gold holdings
1947*	$ 56.0	$ —	$2,004.9	$1,344.3
1948†	544.0	—	1,458.3	1,362.6
1949	108.0	—	1,340.4	1,436.2
1950	51.8	14.7	1,299.4	1,459.5
1951	—	18.2	1,318.3	1,495.0
1952	46.3	20.7	1,288.0	1,531.6

* Four months ended June 30, 1947.
† Ten months ended April 30, 1948.

The Fund's current policies on the use of its resources were set out in a decision of its Executive Board, February 13, 1952. In discussing the new policy at that time, the Chairman of the Executive Board made it clear that access to the Fund should not be denied because a member is in difficulty:

> On the contrary, the task of the Fund is to help members that need temporary help, and requests should be expected from members that are in trouble in greater or lesser degree. The Fund's attitude toward the position of each member should turn on whether the problem to be met is of a temporary nature and whether the policies the member will pursue will be adequate to overcome the problem within such a period.

It was determined that, to insure the revolving character of the Fund's resources, three to five years should be the "outside range" for repayments. Previous to the February decision, on

November 20, 1951, the Executive Board had adjusted its graduated scale of charges to encourage drawings for short periods and discourage extended continuous use of the Fund's resources. What appears to be happening is that the Fund, handicapped by cumbrous charter machinery for semi-automatic lending, is attempting to operate on the principle of a prudent banker. It has no other option to survive.

Currency Convertibility

The International Monetary Fund has indicated a willingness to support plans for restoring convertibility of currencies and has large resources which could be applied to the purpose. The one big postwar credit arranged for this purpose, the \$3¾ billion loan to the United Kingdom in 1946, was granted directly by the U.S. Treasury under authorization of the Congress. The British financial structure was not ready for convertibility and the enterprise failed. The Canadian return to free convertibility was accomplished by reliance on Canada's credit among private investors and without special aids. The experience with currency stabilization credits after World War I was that they only gave some extra assurance of success provided the resolve was there to restabilize and the necessary preliminary measures taken. Especially since the spectacular and costly failure of the British effort, hardly anyone has had the courage to try.

A defeatist attitude has stemmed out of the record of the Fund. For example, at the European Consultative Assembly meeting at Strasbourg a week ago, delegates pointed out that a return to normal envisaged in the Bretton Woods Agreements had not occurred and gave vent to doubts that the world would see multilateral trade and free convertibility of currencies "in our lifetimes". The Assembly itself adopted a report expressing grave doubt that the Bretton Woods Agreements "any longer can be applied", and recommended a world monetary conference for a "reconsideration of basic assumptions". Certainly, assumptions have gone wrong.

For one thing, people in many countries have rebelled at the corruption of paper moneys and have successfully insisted on having gold as a safe haven of purchasing power and, in some degree, as a means for accomplishing private international settlements. The Bretton Woods agreements assumed that the credit of governments could stand without the offer of gold convertibility and that governments could do the job of international financial settlements better than private bankers. Nowhere have the activities of the Fund been more futile than in its effort to suppress private transactions in gold.

Secondly, as pointed out earlier, exchange controls have outlasted the three to five years span of life allotted them at Bretton Woods. They are variously used to ration foreign exchange to available supplies, to exclude foreign goods for purposes of protecting home industries, to control consumption and direct economic development, to support an overvalued currency, and to thwart removals of capital to friendlier climes.

Again, the Bretton Woods agreements assumed that one big job the Fund would have to do would be to prevent competitive devaluations. The real problem has been inflation, somewhat complicated by a reluctance to devalue. Here the Fund has had good advice to offer within the restrictions in its charter on interference with domestic policies.

No Need for Despair

The large disappointments out of Bretton Woods, and the chronic international money muddle, lead some people to despair. They should not. The hopes held out at Bretton Woods for universal convertibility at fixed rates were never attainable, but a prosperous world trade does not demand Utopian currency arrangements among the nations.

The news item from Strasbourg referred to earlier hints that Europe indefinitely will have to rely on American financial aids to solve chronic shortages of dollars. This view is by no means universal in Europe. Indeed, the formula for balancing trade is found within Europe out of the examples of Switzerland, Belgium, Italy, the Netherlands, and Western Germany. The formula, as stated in the Annual Report of the Bank for International Settlements at Basle, is first to control internal inflation, by a balanced budget, suitable credit policies, and a will to work and produce:

> . . . it is essential that each country should restore a proper balance in its domestic economy – which means that in relation to the supplies of goods and services at their current prices the general public and the financial institutions must not be left in possession of an excessive volume of ready cash and other liquid funds. To say that there is a close link between domestic policy and external equilibrium used to be regarded as almost a truism; but a time came when the existence of this link seemed to be forgotten or was even categorically denied. Today, however, a different attitude is in evidence and perhaps the main reason for the change is that a number of countries which had succeeded in putting their own houses in order have suddenly found that most of their balance-of-payments difficulties have disappeared as if of their own accord.

The prime need now is to widen the recognition of these principles.

The World Bank

In contrast to the Fund, the World Bank has worked out more or less according to plan. In its first two years ended June 30, 1948, the bank extended loans up to a total of $497 million, mostly for reconstruction purposes. Since then the Bank has concentrated on development loans and it is perhaps fair to say that it is today the practical spearhead of the "Point 4" idea of forwarding economic progress in relatively undeveloped nations of the world. Mr. Eugene R. Black, President of the Bank, reported at the Mexico City meetings that loans granted during the year ended June 30, 1952 approached $300 million for the second successive year and total loans outstanding reached $1.2 billion. Mr. Black pointed out that, while the Bank usually lends for specific and individual projects, loans of a broader type encompassing an entire program of development have been made to Australia, the Belgian Congo, Italy and Yugoslavia. Typical projects for which loans have been granted include electric power development, irrigation, railway and highway construction.

Over and above the usable funds contributed by member countries, the Bank realizes funds for lending by selling its own bonds. The Bank raised money by the sale of bonds in the United States, Canada, and Switzerland during the year ended June 30 and now has outstanding $450 million in U.S. dollar bonds and the equivalent of $50 million payable in Swiss francs, sterling, and Canadian dollars. The Bank has adjusted rates charged on new loans to cover increased costs of borrowing which, in common with other borrowers, it has experienced. Earnings above expenses are being ploughed back into reserves for losses which now total $86 million.

An International Finance Corporation

One section of the Bank's Annual Report discusses the proposal to establish an "International Finance Corporation" for the purpose of promoting economic development through the stimulation of private investment. The idea is that the Corporation would be an affiliate of the Bank supported by funds specially contributed by the member governments. The funds would be used for loans without government guarantees, as are required when the Bank itself is the lender, and also for equity (common stock) investments in private business enterprises. The project has been under study for some time and the UN Economic and Social Council has asked the Bank to continue its study and to inform the council in 1953 of the results.

An International Finance Corporation of this sort would be a far riskier proposition than the Bank, and it raises the question whether the taxpayers of the world are not already sufficiently burdened without being tapped to provide risk capital to would-be entrepreneurs. There are moreover a legion of handicaps, freely recognized in socialist countries, when government money operates either directly or indirectly in the equity capital area. Judicious tax relief, on the contrary, could afford broad stimulus to enterprise, not to mention the creation of a welcome atmosphere to foreign capital in relatively undeveloped areas. Seizures of foreign-owned properties, of which we have had recent examples in Iran and Bolivia, and arbitrary restrictions on withdrawals of capital and profits, do more harm to the supply of foreign equity capital than an International Finance Corporation could possibly repair. There is no escape from the principle stated by President Black at the annual meetings a year ago:

> Development is primarily the responsibility of the developing country itself. There is not, and cannot be, any substitute for internal effort. Foreign capital cannot be broadly effective in the absence of local capital. Foreign advice will be useless unless there are roots for it to nurture.
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> At best, outside aid can provide only a margin over and above what a people are doing for themselves. It can be the margin between failure and success, but only when there is substantial local effort. And there can be such an effort only when a nation has a will to develop — when there is a drive within the country itself to improve the living standards of its people, and a government which reflects that drive.

The Schuman Plan: Towards Liberalism or Monopoly?

With the installation on August 10 in the city of Luxembourg of the High Authority, or executive board, of the Schuman Plan for pooling the steel and coal industries of Western Europe, a unique and ambitious attempt to achieve more practical unity among nations is now launched as a going enterprise. Hailed by some as the nucleus of a Western European economic and political confederation, and by others as a move towards an international supercartel, managed economies, and socialism, the Plan has taken more than two years to develop from the original proposals advanced May 9, 1950 by the French Foreign Minister, M. Robert Schuman. More than a year of laborious negotiations was required to translate the first broad concept into a detailed blueprint; and another year for the "Treaty Constituting the European Coal and Steel Community" to be ratified by the legisla-

tures of the member countries — France, West Germany, Italy, Belgium, Luxembourg and the Netherlands.

Trade agreements and customs unions between and among nations are not new, but the idea embodied in the Schuman Plan of integrating the coal and steel industries of Western Europe represents the boldest effort yet made to bring about that "solidarity in fact" which M. Schuman described as an essential basis for building toward the Treaty's declared objective of a "sound, united, and strongly constructed Europe". These two commodities lend themselves admirably for the experiment, since for these the two key continental countries, France and West Germany, are dependent upon each other. With the falling off of British coal exports, France has become more than ever dependent — except for receipts of American coal financed largely by the Mutual Aid funds — upon Ruhr coal and coke. Germany in turn must import about half its iron ore requirements, and nearby Lorraine mines are the logical source.

Coal and steel are the raw materials for hundreds of export products. As has been stated over and over again, if Western Europe is to compete successfully in international markets these raw materials must not only be produced efficiently but must be accessible to all Western European nations. This was the theme of the repeated urgings of Mr. Paul G. Hoffman, first Administrator of the E.C.A., for elimination of intra-European barriers to trade and establishment of a common market. Moreover, when M. Schuman first broached his Plan in May 1950, there were signs that Western Europe might actually have surpluses of coal and steel, even with the restraint on German steel production. The idea of stimulating European steel consumption, and of establishing some kind of authority to steer a middle course avoiding either cut-throat competition or restrictive private cartels, had great appeal at the time. Above all, the selection of coal and steel opened a vista of better Franco-German political relations.

Tasks of New "Coal and Steel Community"

As will be seen from the table, the six countries represented in the new "European Coal and Steel Community" produced in 1951 nearly 38 million metric tons of steel and some 231 million tons of coal, about 21 and 20 per cent respectively of the free world output.

In the common market that the Schuman Plan proposes to create, all producers are to have access to markets throughout the territory, while consumers are to have access to all coal and steel

Coal and Steel Production of the Schuman Plan Countries

(In Millions of Metric Tons)

	Bit. Coal Output 1951	Lignite Output 1951	Steel Output 1951	Iron Ore Output 1951	Approx. Metal Content
Belgium	29.6	—	5.1	.1	35%
Luxembourg	—	—	3.1	5.6	30%
France	52.9	2.0	9.8	35.7*	35%
Saar	16.0	—	2.6	—	—
West. Germany	118.9	83.1	13.5	12.9	25%
Italy	1.2	.9	3.0	.5	50%
Netherlands	12.4	.3	.6	—	—
Total	231.0	86.3	37.7	54.8	—
United States	522.9	—	95.4	118.3	50%
Free World	1,147.2	108.7	182.7	228.1	—

* Including French North Africa.

no matter where produced. Prices are to be the same for all, though not necessarily the same everywhere. Unfair competitive practices and price discrimination according to nationality of the buyer are prohibited.

The fetters on intra-European trade in coal and steel, heretofore imposed by individual governments or by the private cartels into which European industry has been organized, are to be removed: tariffs, quotas, preferential freight rates, and double pricing. Effects of such practices were described by M. Chastenet, Vice Chairman of the European League of Economic Cooperation, in the March 1951 Harvard Business Review, as follows:

> Just recently French iron ore was sold at the pit head at 585 French francs per metric ton if the buyer was French and 1,080 francs if foreign. German coke was sold at $9 to a German buyer and $14 to a foreigner. . . . Beyond these practices of dual prices there have arisen inextricable difficulties with regard to transport. . . . A ton of coke sent by rail from Duisburg in the Ruhr to Homecourt in the Lorraine passes through the Saar. Twice it has to pay a "breakage of bulk" charge, a fictitious loading and unloading fee. At each frontier crossing a fresh tariff is imposed which is degressive only for nationals of the country in question.

While the cartel system protected the producer from excessive competition and gave a measure of stability to production, it penalized the consumer by limiting supplies and maintaining artificially high prices. A still more serious long-term effect was discouragement of the incentive for technical development of industry, with consequent lag in plant improvement.

Institutions of the "Community"

Working out the details of the Schuman Plan proved to be a protracted and patience-requiring task. At times hope for agreement sank low, particularly when the drafting became entangled with such issues as control of the Saar and German rearmament. As finally ratified, the 50-year "Treaty Constituting the European Coal and Steel Community" is a formidable document of some 120 pages.

The Treaty proposes to establish a single market for coal and steel by (a) gathering information on prices and production costs and making recommendations on the policies to be followed by coal and steel companies, (b) disbursing funds obtained through taxation and borrowing to individual companies to improve and expand production, and (c) negotiating tariffs, fixing prices, and exercising other direct controls, as deemed necessary.

There are to be five major institutions:

(1) The "High Authority" is the executive organ, exercising the powers of individual governments over prices, tariffs, production, and investment. It will act by majority vote. In times of overproduction, the High Authority may fix minimum prices and establish national production quotas. When shortages threaten, it may fix maximum prices and apportion coal and steel to the individual nations. It may recommend changing wages. It may impose penalties upon enterprises which evade its directives. The High Authority may also raise funds through taxes on steel and coal production, and by borrowing, receiving grants, and imposing fines. Its nine members are appointed for six years. The chairmanship went to M. Jean Monnet, head of France's industrial modernization program, who was the chief architect of the "Community". To his adroitness and persistence must be given much of the credit for its very existence.

(2) The "Consultative Committee" drawn in equal number from the producer, labor, and consumer groups, will be attached to the High Authority and assist in making decisions.

(3) The "Common Assembly" is to be composed of 78 delegates from the Parliaments of the six countries. It will meet at least once a year to review the High Authority's work and its budget. A two-thirds vote of censure by the Assembly will compel the Authority to resign.

(4) The "Special Council of Ministers" is to be responsible for coordinating of the activities of the High Authority with those of the member governments. The Council will have the right to initiate proposals, and a voice in price and tariff-fixing and investment programs.

(5) The "Court of Justice" is to be charged with interpretation of the Treaty and will hear grievances of the member nations.

Preparatory and Transition Periods

A preparatory period during which the Community institutions are to be set up will last six to eight months, to be followed by a five-year transition period for putting the proposed changes into effect gradually. Before free trading in coal and steel is established, the member nations must negotiate releases from most-favored-nation agreements with outsiders. A single tariff barrier is to be set up around the Community, comparable to the imperial preference system of the British Commonwealth.

Probably the knottiest problem of the transition will be the adjustment of cost differences between member countries. This will involve the closing of some high-cost coal mines in Belgium and France, and is likely to put to test the Community's super-national powers. A coal equalization fund is to be established, financed in part by a tax on the lowest cost mines (chiefly in Germany and the Netherlands) and in part by contributions of countries whose mines are to be assisted. The levies are to be reduced by 20 per cent each year for five years. By the end of this period the highest cost coal mines (located principally in Belgium and France) are expected to be retired from production. No equalization fund is to be established for steel. However, the Italian steel industry will be allowed to maintain tariffs which are to be reduced by 20 per cent each transitional year.

Attitudes in Member Countries

This review of the imposing and complex machinery of the Plan, and the powers attributed to it, makes understandable the trepidation of industrialists and statesmen alike in subjecting themselves to its jurisdiction and controls. Industrialists see themselves at the mercy of an overhead bureaucracy of international "managers" in whose decisions they have little say, yet which has the exercise of literally life and death powers over their affairs. Governments, jealous of their sovereign power, see in the Plan at least a partial surrender of such sovereignty, and hold back.

Such uncertainties, suspicions, and apprehensions are intensified by deep-rooted national feelings and rivalries, which complicate the whole project. Thus the smooth operation of the Community will require among other things solution of the problem of the rich steel and coal producing region of the Saar, attached economically to France since the end of the war but claimed by West Germans as an integral part of their country. The French now propose that the Saar be neutralized, placed under the all-European control, and made the seat of the Schuman Plan institutions.

Despite qualms, each country has been able to envision enough benefit in the Plan to go along. For France the Plan offered, as the Lon-

don Statist puts it, "a chance not only to solve her coal problem but also to share in the control of the development of Germany's principal industrial asset for making war." For Germany, it offered release from the special discriminatory postwar limitations on expansion of steel capacity. The opportunities offered to the German and Italian makers of capital goods in the development of French and Belgian colonial markets have been another important consideration. Africa's needs for capital goods and structural steel have been expanding faster than France, occupied with her own rehabilitation and modernization, could supply.

For all countries, the Schuman Plan offered, through its powers to evoke price fixing and marketing controls, the kind of protection against unrestricted competition to which the European industrialist has been long accustomed.

Finally, no government wanted to be put in the position of opposing a program widely regarded as holding so much promise of peace.

The Test Still to Come

To pass fair judgment on the Schuman Plan is at this stage impossible. Certainly none can fail to applaud its high purpose or to share the hope that it may indeed bring nearer to realization the unification of Europe, described by M. Monnet as "the most important political and economic undertaking of our time".

That the Common Assembly of the Coal and Steel Community is determined to move swiftly towards implementing these broader objectives was indicated by their voting, at the first meeting at Strasbourg last month, to set up a special European constitutional convention to prepare by next March specific measures for a Western European political union.

With due acknowledgment of this inspiring beginning, one is still faced with the question: will the plan in practice really work towards liberalism in trade or towards more controls, restrictions, and monopoly? It is impossible to review the extensive administrative superstructure of the Plan, and the broad scope of the powers delegated to it, without being impressed that here are the potentialities of the "managed economy" raised to the nth degree. Though the Schuman Plan proposes to sweep away existing barriers to trade and free competition imposed by private cartels and nationalistic governments, yet it arms its administrators with the full arsenal of restrictive devices. Considering the pressures to which these administrators are bound to be subject, and the tendency of government everywhere to reach out and extend its controls, what assurance is there that this Plan may not, in fact, mean moving away from, rather than toward, the free markets and free enterprise which are its avowed objectives?

What, it may be further asked, of the Schuman Plan thesis that competition can be enforced from above by centralized authority and that private ownership and interests must be subordinated "to the broad political and social aspects of the new Community"? Could the American steel industry have expanded its output to its present proportions and efficiency had its activities been circumscribed by limitations such as those contemplated in this Plan? Writing in the October 1951 issue of the Atlantic Monthly, Mr. Clarence B. Randall, President of the Inland Steel Company and Mr. Hoffman's steel consultant in the early days of the E.C.A., expressed as follows some of the apprehensions which have been widely felt:

> What more decisive power of life and death could be created for the use of a new bureaucracy than "In order to encourage a coordinated development of investments, the High Authority may require enterprises to submit individual programs in advance"?
>
> The penalty for violation of this is the loss of the right to solicit capital funds outside of the company's own existing resources, plus a fine "not exceeding the sums unduly devoted to realization of the program in question." This could mean that no company could ever again build a new blast furnace or open hearth, or perhaps even buy a crane or a galvanizing pot, or take any of the decisions that are taken almost daily by a large American steel company, without filling out forms and awaiting endlessly the approval, not of the company's own government, but actually one controlled by men who are thought of as foreigners by the company's management, and who can hardly be expected to have knowledge of or be interested in the particular company's problems.

Citing other instances of dictatorial powers over industry, Mr. Randall concludes:

> I therefore share the fears of those who believe that the Schuman Plan will weaken Europe by laying the dead hand of socialism and bureaucracy across its basic industry. I wish fervently that somehow some other way might be found for advancing the political unity of Europe.

Probably Mr. Randall has put his finger on the nub of the whole matter in the last sentence of the above quotation. Up to now this plan has emerged as the one plan upon which men could agree.

The Schuman Plan affords one method of trying to get international cooperation. Now that a program has been charted and embarked upon, the thing to do is to strive by the exercise of patience, wisdom, and mutual goodwill to make it work.